GOVERNMENT AFFAIRS
Washington REALTORS®
Promoting expertise in real estate

May 8, 2006

Hon. Christine Gregoire
Office of the Governor
PO Box 40002
Olympia, WA 98504-0002

Hon. Lisa Brown
35 W. Main, Suite 375
Spokane, WA 99201

Hon. Frank Chopp
444 Ravenna Blvd, Suite 106
Seattle, WA 98115

Dear Gov. Gregoire, Speaker Chopp, and Majority Leader Brown;

Good health, a secure income, and an affordable home are three ingredients for thriving families. During the last session, you helped to improve access to health care by crafting a remarkable compromise on medical malpractice reform. You helped protect family-wage incomes by engineering a crucial repair to the state's unemployment insurance system.

Now it's time to lead the state in crafting a balanced solution to Washington's home affordability crisis. On behalf of Washington's 24,000 Realtors, I'm asking you to make improving access to home ownership a priority for the 2007 legislative session. Between now and then, with your leadership, we can build a legislative agenda that

- *allows families back into cities,*
- *helps young teachers, nurses, and other middle-wage voters afford a home near their workplace,*
- *reduces pressure on transportation and water systems, and*
- *ensures our cities and counties are prepared for the population growth we know is coming.*

Housing affordability "crisis" is not an overstatement. According to the Washington Center for Real Estate Research at Washington State University, during the past year many Washington counties experienced dramatic increases in home prices that are simply not sustainable for any family budget. These increases occurred in every part of the state: Clark County, 26.8 percent; King County, 17.8 percent; Pierce County, 21.4 percent; Spokane County, 21.5 percent; and Thurston County, 29.2 percent. Across the state, home prices increased by an average of 19 percent last year.

The Center's Housing Affordability Index, which analyzes the degree to which home ownership is within reach of a family, gauges the misery produced when the pressure for more homes pushes prices sky high. A score over 100 means voters have more income than they need to afford a home; 100 is the break-even point where income just meets the cost for an "average-priced" home.

In 2006, the *Housing Affordability Index rating for our state fell to its lowest point in 12 years*. The affordability rating released in February 2006 marked the third consecutive quarter of record-low rankings — the first series of record lows since the Center for Real Estate Research was created in 1989.

Each of you possesses a strong understanding of how economic forces affect markets. Because the demand for homes has far exceeded the supply, massive price swings should come as no surprise.

The primary reason the supply hasn't kept up with demand is that there simply are few places left to build new homes and little flexibility to increase housing options within existing residential areas. Cities and counties drew Growth Management urban boundaries 15 years ago with state law originally directing municipalities to review and update plans every five years. In effect, local government controls land use, and that regulates housing supply. But in spite of significant population increases, *very few municipalities have effectively revised their original plans to provide sufficient homes needed to accommodate growth* in their communities. Your constituents now are suffering the consequences of the inaction of cities and counties — on average paying more than 50 percent of their incomes on housing and transportation needs. Families searching for homes within their budgets have voted with their feet, driving further and further to stretch their precious dollars as far as possible. By failing to plan to provide homes people need, many Washington communities face exactly what the Legislature was trying to prevent — sprawl.

The lid on the pressure cooker is starting to burst. Choking off development both inside and outside urban areas is simply untenable. Constituents, driving further and further to find affordable residences are, in turn, choking our roads and freeways. Now, voters desperate to protect the investment they've made in their homes and land are turning to property rights Initiative 933 — an alternative that none of us likely finds preferable to the legislative process.

Over the next 12 months the Washington Realtors want to work with you to demonstrate to Washington voters that their elected leaders care about Washingtonians' access to one of America's most prized values, home ownership. We would like to propose the following steps to achieve this goal:

1. Develop a housing opportunities legislative agenda that includes strategies that will place home ownership within reach of typical Washington families.

2. Name a bipartisan work group to develop recommendations. The group could meet between July and October to develop 10 recommendations *to increase housing supply to meet demand* that the Governor, the Speaker, and the Majority Leader would propose to policymakers in January 2007. The work group would consider a number of solutions to increase the housing supply, including:

- Requiring Growth Management Plans result in no net loss of housing opportunities.
- Requiring that Growth Management plans balance projected job growth with housing supply, to ensure employees can live in communities where they work.
- Ensuring communities increase affordable housing opportunities through strategies that could include lot-size averaging and attached/detached accessory dwelling units.
- Establishing performance measures for Growth Management plans, to measure whether the plans actually accommodate growth and to verify that municipalities are adjusting plans to accommodate growth.
- Making the funding of critical infrastructure projects a priority in state and local budgeting.

3. Conduct legislative policy hearings on these strategies to garner the comments and ideas of families who cannot find affordable homes near their places of work. Ask cities and counties to explain how their growth plans accommodate the housing needs of current and future residents.

4. By the end of the session, adopt at least five of the recommendations.

During the last legislative session you demonstrated your extraordinary capacity for leadership on complex issues critical to Washington families. Without your leadership the state will continue to be saddled with intractable fiscal challenges associated with providing affordable housing opportunities and efficient transportation options for Washington citizens.

In the 2007 session of the Legislature, I hope you will consider tackling another – placing home ownership within reach of hard-working Washington families. Washington Realtors look forward to working with you to develop solutions to this statewide challenge. If you would like to work together to craft a Washington Housing Strategy, please contact Bryan Wahl, Washington Realtors Government Affairs Director, at 360-561-9636.

Sincerely,

Terry Sullivan

Terry Sullivan
President, Washington REALTORS®

Attachments:

WA Research Council Policy Briefs:
- "Housing Supply – the Quiet Job Killer "
- "Housing for Economic Development"

Seattle Times, "$405,000 Median house price in King County"
News Tribune column, Peter Callaghan

cc: Rep. Lynn Kessler
Rep. Mark Miloscia
Rep. Geoff Simpson
Sen. Jim Kastama

POLICY brief

Washington Research Council

PB 06-01 January 2, 2006

Housing Supply: The Quiet Job Killer

BRIEFLY

State and local governments in Washington are undertaking aggressive economic development programs designed to create jobs for people in a wide range of skill levels. A lack of land capacity in urban areas hampers these efforts, however. Land use policies have to recognize that the opportunity for middle income jobs depends on the availability of middle income housing.

GIVE'EM SHELTER

A five-part series examining the availability and affordability of housing in Washington State.

Part 3

Month after month, the headlines tell the same story: housing prices up at double-digit rates – again. The news stories that follow the monthly release of prices and sales data by the Northwest Multiple Listing service nearly always point to some factor driving demand – low interest rates, a hot economy, speculation – but they rarely talk about the other side of the equation: supply.

Housing provides an excellent illustration of the laws of supply and demand. Housing markets are fragmented and competitive, with many buyers and sellers and nearly perfect information. The creation of households follows predictable patterns, and each household needs just one housing unit. The economics of housing should be easy to understand. So why is there just a collective shrug when the monthly statistics show that another segment of the population has been priced out of the market?

This brief takes a look at the demand and supply dynamics of the housing market, showing what happens when supply does not respond adequately to signals from the demand side. When major price increases do not bring a rush of new supply to the market, something is wrong, and when markets as important as housing do not function smoothly, the consequences can be severe.

State and local governments in Washington are undertaking aggressive economic development programs designed to create jobs for people in a wide range of skill levels, but this effort will be severely hampered by high housing prices and a lack of new housing supply.

THE ROLE OF SUPPLY AND DEMAND IN A HOT HOUSING MARKET

In a well-functioning housing market the median price for a house should fall somewhere near the level that a buyer with the median income can afford. If prices are too low, resellers pull homes off the market and builders stop building, creating shortages that drive prices back up. If prices are too high, owners of existing homes cash in and builders ramp up production, adding supply and bringing prices down. This simple dynamic assumes, of course, that markets are open and fluid.

To figure out the degree to which rising prices can be attributed to shifts in supply or demand, we need to look at the factors that drive each.

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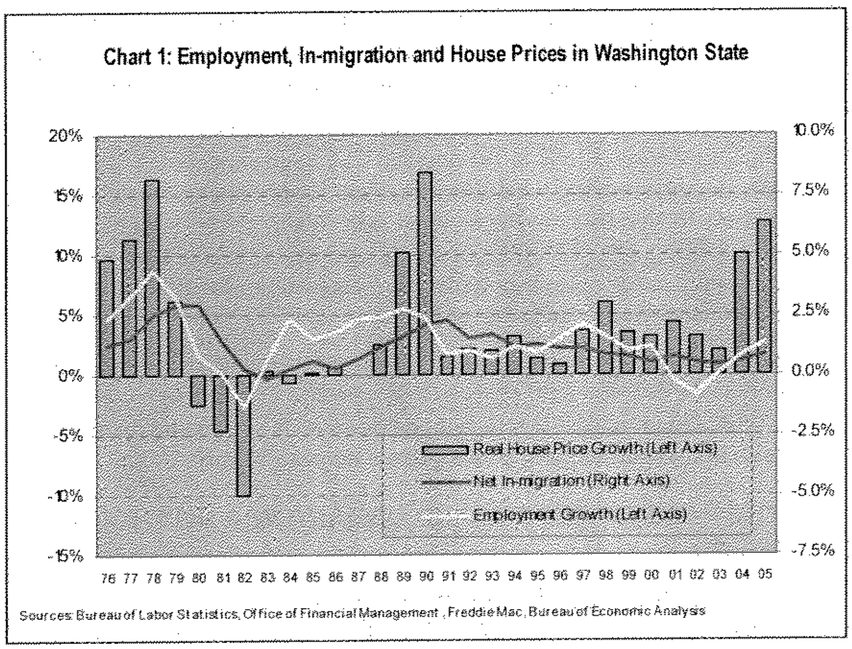
In search of a "demand shock"

In the short run, housing markets are driven primarily by demand. While an ample and affordable housing supply may attract growth over time, in the near term, home prices and building activity responds to identified demand. "Build it and they will come" does not work for the individual home-builder. Before undertaking projects, builders and developers look at a number of factors that determine future housing needs. These factors can provide an indication if there is an abnormally high level of demand for housing in Washington.

Job and population growth. A good place to start looking for clues to demand increases is in population growth: every new household needs a housing unit (the complex relationship between population growth and housing growth will be discussed in more detail below). Population growth has two major components: natural growth and migration. Natural population growth is the excess of births over deaths, and tends to be stable over time. Net in-migration – the number of people moving into the area minus the number of people moving out – varies considerably, even over short periods of time, and is closely tied to expansions and contractions in the state economy.

Chart 1 shows the net rate of in-migration to the state (net in-migration divided by population), the rate of growth in non-farm employment and the rate of growth in the average house price (adjusted for inflation as measured by the personal consumption expenditure deflator) in Washington for the past 30 years. Several things are worth noting. First, the cycle in employment leads the cycle in in-migration. Thus, it is employment growth that drives population growth. Second, years with strong employment growth tend to be years with strong housing prices.



Job growth was less robust in the late 1990s than in either the late 1970s or late 1980s, and house price growth was correspondingly less robust then. While job growth following the 2001 recession has been weaker than following either the 1982 or 1991 recessions, the growth in housing prices, surprisingly, has been stronger. And 2004 and 2005 rank in the top 6 of the 30 years.

Interest rates. Historically low mortgage interest rates are frequently cited as a major contributor to housing demand, and there is no question that they have been a factor. Rates, however, hit bottom in mid-2003 and held relatively stable until their recent rise. Falling rates in 2001 and 2002, which increased purchasing power and allowed more buyers to enter the market at the low end, can explain the growth in prices for 2001, 2002 and 2003, but not for 2004 and 2005.

Further evidence that interest rates are not the cause of recent increases in housing prices comes from data on the share of home loans that are "interest only." Nationally, in the first six months of 2005, 28.5 percent of home loans were interest only. For Washington the figure was 38.6 percent, ranking 8th highest among the states. For the Seattle-Bellevue-Everett metro area, 45.1 percent of home loans were interest only, 13th highest amongst metro areas; for the Tacoma area, 44.6 percent were interest only, 14th highest (LoanPerformance 2005). Even at the current low interest rates, housing prices strain household budgets.

Speculation. For the past year or so, observers of the economy have been using the "B" word: bubble. There is growing concern that housing prices are being driven by speculative investment, rather than any rational sense of value in residential real estate. This talk is fueled by concern about the array of new financing tools (including interest only loans) available that allow homebuyers to take on more debt than they could under conventional financing.

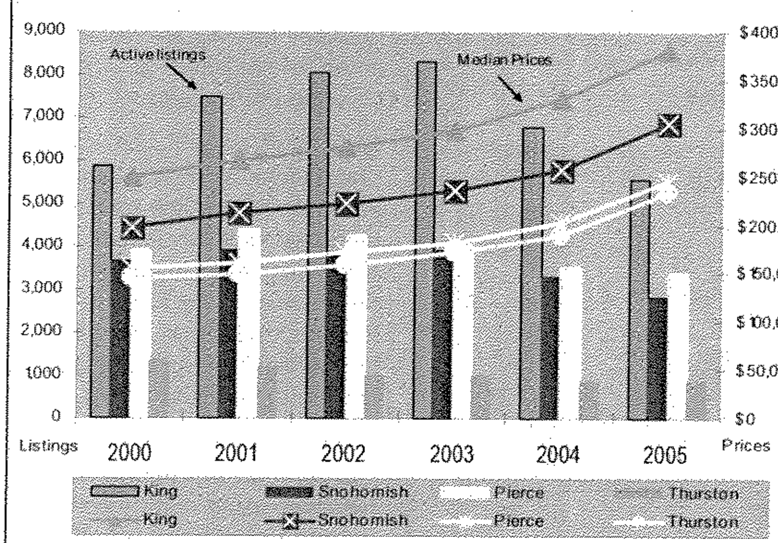
So, is it possible to identify an excessive amount of demand in the housing market? Or, more precisely, has there been a "demand shock" that cannot be satisfied with new supply from a normally-functioning housing market? Favorable mortgage products and some speculative activity have likely pushed demand higher than it would be under the current slack job and population growth. But there is no sign of the sort of shock that happened in the late 1980s, when Boeing ramped up production and brought thousands of families to the Puget Sound region in a matter of months, just as the rest of the economy was heating up.

Supply: cruising along in second gear

Skyrocketing prices, multiple offers and bidding wars are expected during times of rapid job and population growth, but why are they happening during the relative demographic calm of the past few years? Why can the housing industry not keep up?

A place to start on the supply side is the inventory of detached houses on the market. The Northwest Multiple Listing Service reports monthly on the number of homes listed for sale by real estate brokers in most counties of Western Washington. This data includes nearly all re-sale homes (except those being sold by the owner) and some new construction homes (many new homes are pre-sold and never get listed).

Chart 2: Listings and Prices in 3rd Quarter

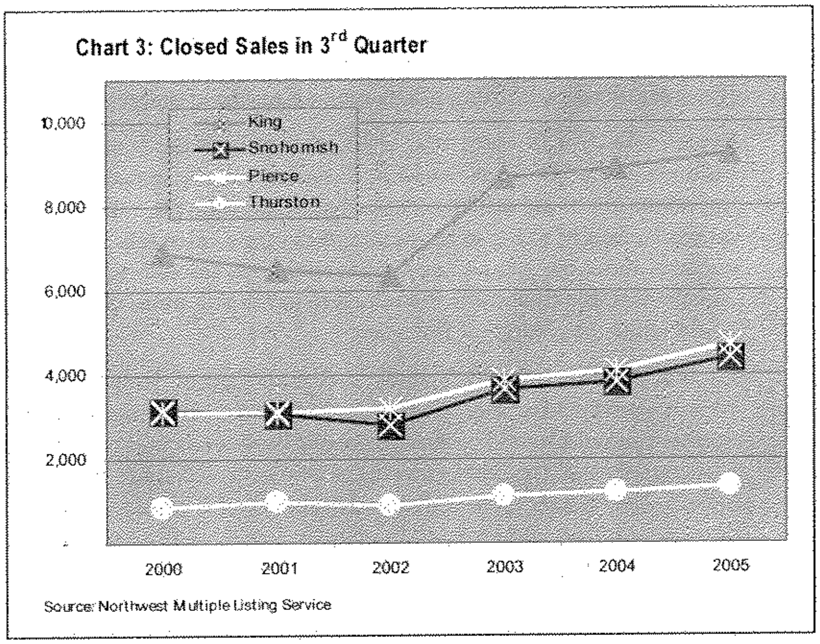


Source: Northwest Multiple Listing Service

Chart 2 shows trends for four large Puget Sound area counties, which make up about three fourths of sales in Western Washington. The bars show active listings, and the lines show median prices for each county. Note that inventory strengthened as prices rose through 2001 and then began to fall in three of the counties while prices increased even faster. (King County had another two years of build-up, but then inventory fell even more sharply.)

Also of note in this data is the trend in Thurston County. Previously an affordable area, median prices have shot up from $144,000 in 2000 to

$233,000 in 2005. This 11 percent annual increase is widely attributed to the spillover effect of the 10 percent annual price increases in Pierce County. Clearly, scarce inventory and rising prices continue to chase buyers up and down the Interstate 5 corridor in search of affordability.

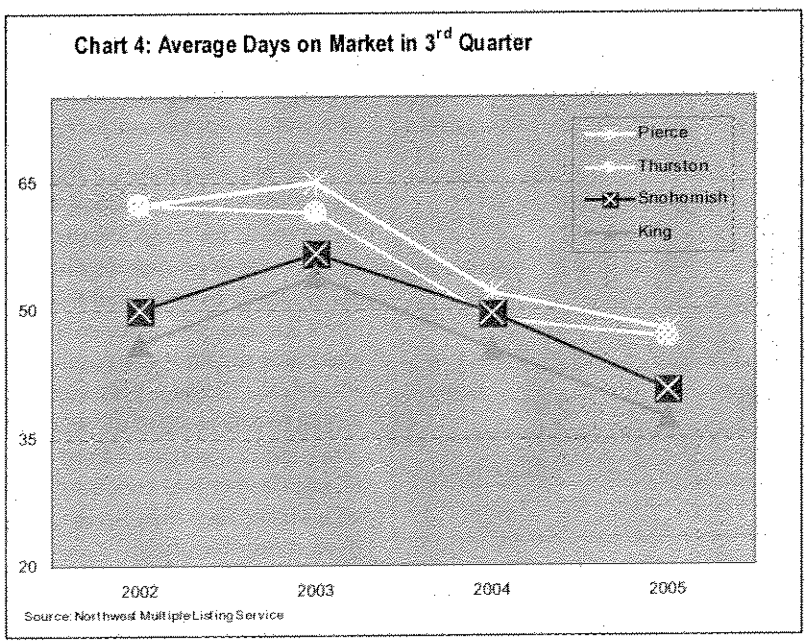


The lack of active listings, or inventory, does not mean there is a lack of sales. In all four counties, sales have increased even in the face of declining inventory. Chart 3 shows closed sales for the four counties during the third quarter, which is traditionally the highest sales period for residential real estate. The reason this can happen is that homes are being sold much faster, and therefore staying on the market as listings for a shorter time. Chart 4 shows that the time on market has dropped steadily over the past few years.

All this data – rising prices and sales, falling inventory and time on market – point to one inevitable conclusion: a shortage of housing on the market. Even with job growth and in-migration at relatively low levels, the behavior of the market indicates a shortage of houses.

Implications

Both the supply and demand curves for houses are quite steep, or inelastic. An inelastic supply means that it takes a substantial price increase to get more inventory on the market through new construction. While new construction has picked up in many areas, it is still not on a substantially higher pace than in the past 10 to 20 years. Restrictions on the availability of land to build detached housing also hampers the ability of the homebuilding industry to expand its capacity.



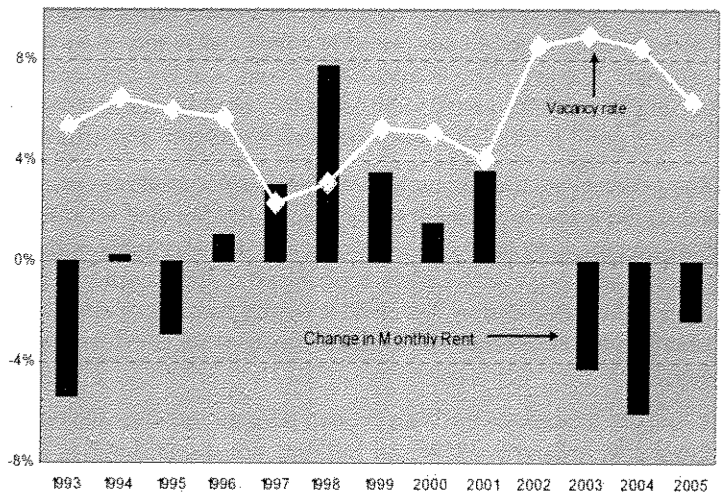
Inelastic demand means that rising prices do not deter many buyers. A sense of urgency and some tricky mortgage tools can induce buyers to chase higher and higher prices. Strong sales in the face of double-digit price increases indicates that buyers feel housing is a good investment, even at higher prices.

The price increases of the past several years are due to demand that is both increasing slightly and inelastic, and a supply that is both stalled, and inelastic. Thus, a relatively small shift in the demand curve results in substantial increases in prices.

THE EXCEPTION: RENTAL APARTMENTS

While supply seems to have a difficult time catching up to demand in the for-sale market, the situation is quite different in the apartment rental market. Charts 5 and 6 use Snohomish County as an example, although patterns similar to those seen in Snohomish County have occurred in other counties in the state.

Chart 5: Multi-Family Rents Respond to Vacancy



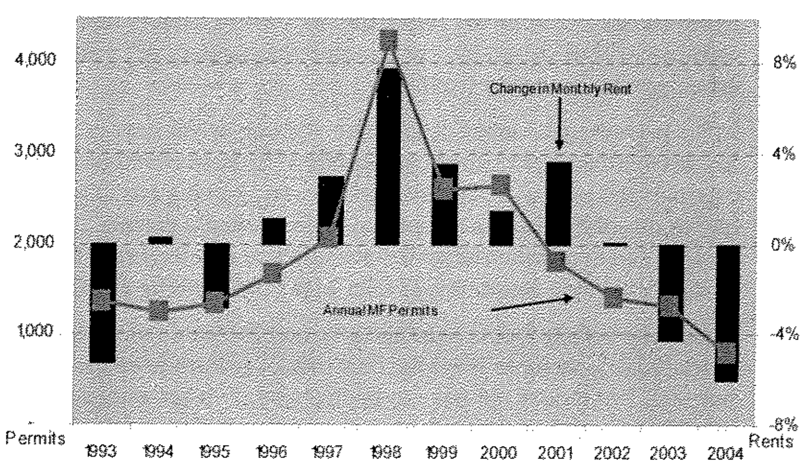
Source: Dupre+Scott Note: monthly rent is adjusted for inflation

In the apartment market, rents consistently respond inversely to vacancy rates: high vacancies produce flat or falling rents, and low vacancies produce rising rents. Chart 5 shows that when vacancies get much above or below four percent, rents can adjust dramatically.

Construction of apartment buildings tracks rents, with rising rents leading to new buildings, and falling rents slowing down the pace of construction. Chart 6 shows that permitting activity tracks the rate at which rents are changing. (Note: the data on multi-family housing permits includes condominiums. Although problems with construction liability have dramatically reduced condominium construction in moderate-priced markets like Snohomish County, the data should still be considered just an approximation of apartment construction.)

In the short term, both supply and demand for apartments are relatively inelastic, which is why rents can rise and fall dramatically when the market is out of equilibrium. But unlike the detached housing market, new supply tends to flood the market at regular intervals, keeping apartment rents much more affordable than owner-occupied houses. An apartment building boom in Western Washington in the late 1990s led to the high vacancy rates and falling rents that tenants have benefited from and investors have suffered from during the past several years.

Chart 6: Multi-Family Construction Responds to Rents



Source: Dupre+Scott and PSRC Note: monthly rent is adjusted for inflation

The relative ease of building apartments, as compared to building detached housing or condominiums, will hamper efforts to raise the rate of home ownership. Statewide, the home ownership rate in 2000 was over 64 percent. In contrast, the state's larger cities have lower rates, with Seattle at 48 percent, Tacoma at 54 percent and Vancouver and Yakima at 53 percent. The trend away from ownership is moving out to suburban areas, as apartment construction proves easier than production of for-sale housing. The home ownership rate is just 54 percent in Redmond and 53 percent in Lynwood. If this trend continues, one effect of the GMA policy of promoting development within cities could be a lower rate of home ownership.

IT ALL BEGINS WITH LAND

The most fundamental raw ingredient of homebuilding is land. Or, more precisely, land that is properly zoned and is served by basic infrastructure. The price and availability of land, and the time and cost of turning it into fully-serviced building lots or multi-family sites, is the starting point for any discussion of housing supply and affordability.

The general rule that a new house is priced at a multiple (usually between three and four times) of the cost of the finished lot still holds. Finished lot costs have risen dramatically in many areas of the state, pushing new home costs up as well. Some of the increase in lot costs can be attributed to new stormwater requirements and more elaborate streets, but most of the cost increase comes from the rising price of land.

In the urban areas of the state growth boundaries have placed a limit on the supply of land available for building houses. Depending on how tight it has been set, this limit can have a major impact on land prices.

The building industry finds it cheaper to develop open land on the periphery, so the only way to get the industry to shift to infill sites is to restrict the supply of land below the level that could be absorbed on the periphery. Higher prices of land on the periphery make infill land, which tends to be more expensive to buy and develop, attractive.

In some counties there has been very little infill development, indicating that land on the periphery is still available and attractively priced. In other areas, King and Snohomish counties in particular, but increasingly in Pierce and Thurston counties, land prices on the periphery have risen substantially. This has the intended effect of promoting infill development, but also has the inevitable effect of cutting back on new home construction and driving up new home prices.

Holding land prices down in the face of continuing increases in demand requires increasing the supply of building sites. This can be done in one of two ways: by removing regulatory barriers to density that restrict the capacity of land within the current growth boundary or by moving the urban growth boundary itself.

In the high-demand areas of the state, the one bright spot in land supply has been the masterplanned communities. In these developments the original land cost was very low, and masterplanning has allowed much higher densities than the peripheral areas normally permit. Thus, low lot cost and economies of scale have allowed much more affordability in masterplanned communities than in the surrounding subdivisions.

A housing supply that is both inelastic and incapable of expanding its productive capacity to meet the demands of growth is nothing new or unusual. But it does not have to be that way. Fast growing areas can provide enough housing to keep prices down. For example, while the Puget Sound region's population grew by 5.6 percent from 2000 to 2005, the Atlanta region grew by 11.2 percent, exactly twice as fast. During this same time, housing prices increased by 49 to 64 percent in the Puget Sound area, while prices grew by only 30 percent in the Atlanta area (Atlanta Regional Commission, Puget Sound Regional Council, Freddie Mac).

So what accounts for the difference between Atlanta and Puget Sound, such that Atlanta can grow twice as fast, but have housing prices increase no more than inflation, while Puget Sound area prices go up over 50 percent? A pair of economists, one from Harvard, the other from the Wharton School at the University of Pennsylvania, asked that question and concluded:

> America is not facing a nationwide affordable housing crisis. In most of the country, home prices appear to be fairly close to the physical cost of construction. . . . The bulk of the evidence marshaled in this paper suggests that zoning, and other land use controls, are more responsible for high prices where we see them. . . . Measures of zoning strictness are highly correlated with high prices. (Glaeser and Gyourko 2003)

The difference between the Atlanta and Puget Sound regions, then, should be found in the varying availability of land zoned for home-building. The Atlanta region has few regulatory or natural restrictions on the spread of urbanized development outward from the central city, and as a result, there is a near limitless supply of land on the ever-expanding periphery of Atlanta. The price of land, therefore, stays low.

Clearly Washington's Growth Management Act and the urban growth lines it calls for are a reaction to the unchecked spread of urban growth seen in places like Atlanta. But there should be no mistaking the choice that has been made: restrictions on land availability drive up prices of single family homes. There remains substantial inelastic demand for detached housing, and restrictions on supply, however well-intentioned, have resulted in rapid price increases.

HOUSING SUPPLY, POPULATION GROWTH AND JOB GROWTH: WHAT DRIVES WHAT?

The degree to which metropolitan areas grow or shrink is usually thought to be a function of jobs. Areas with expanding employment should see population growth, and areas with stagnant or shrinking job bases should see population decline. This thinking, however, ignores one critical factor: housing. Regions cannot grow if there is no place for people to live, and places tend not to shrink if housing is widely available. So, what is the relationship between housing and population growth?

This question is particularly important in light of Washington's Growth Management Act. The GMA keys its policies to population growth, with all jurisdictions required to "accommodate" a number of people that the Office of Financial Management projects will want to live in that jurisdiction. This approach raises the question of how we would know if the projections are wrong. By definition, growth cannot exceed the number of people accommodated. There is no way to know how many people would have lived in a jurisdiction but could not because housing was not available or affordable.

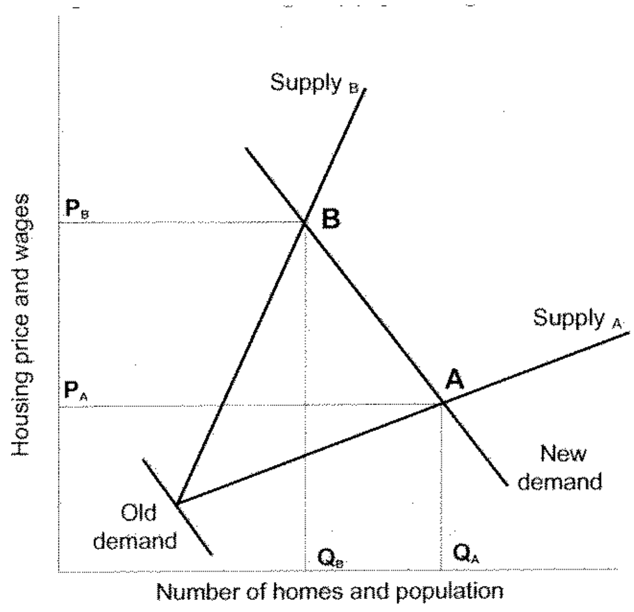
In effect, growth projections can become a self-fulfilling prophesy. The projected population growth becomes the accommodated population growth, which, in turn, becomes the maximum actual growth. If these rigid projections are built into local land use policies, there may be little room for supply to expand in order to meet a sudden demand shock.

The previous brief in this series noted that several counties that underwent the Buildable Lands process found that they had just barely enough land to accommodate their OFM population projections. In these cases there is little slack in the supply to absorb a demand shock.

If we are heading toward a collision of economic growth and housing supply, what will happen when housing cannot keep up with a hot economy? The same two economists who asked why housing prices go up in some areas and not others, explored this question. In a paper from the Harvard Institute of Economic Research, Glaeser, Gyourko and Saks (2005) explored how the housing supply of an urban area interacts with population and economic growth. The key, they found, was in the elasticity of the housing supply, or the degree to which new housing can be built economically in response to growth in demand. Chart 7 shows the impacts of an elastic or inelastic housing supply. In the case of "supply A," economic growth along with an elastic housing supply leads to population growth and a slight increase in wages and housing prices. In contrast, "supply B" shows economic growth along with an inelastic housing supply, which leads to less population growth, higher wages and higher housing prices.

The important point of this research is that a lack of housing growth will not bring economic growth to a halt. But it will have a powerful impact on who benefits from that growth and who suffers from it. If an inadequate housing supply drives up wages and housing prices and lowers population growth this will have significant consequences for individuals, businesses and the economy as a whole.

Chart 7: Housing Supply and Growth



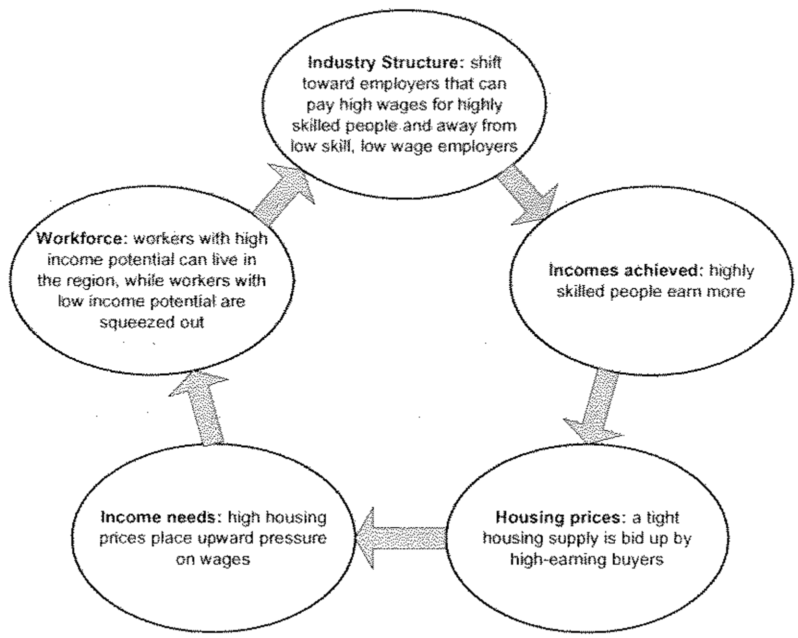
The impact of a demand shock that shifts the demand curve from "old demand" to "new demand" will vary depending on the elasticity of the supply curve. With an elastic curve like Supply $_A$, the result, point **A**, will be substantial new housing supply and population, with modest gains in wages and housing prices. An inelastic supply, such as Supply $_B$, will result in point **B**, with higher wages and prices, fewer new housing units and less population gain.

(Source: Glaeser, Gyourko, Saks, 2005)

Higher wages will offset the higher prices for some individuals, so real wages may not rise at all. Other individuals, those who work for employers that do not have the flexibility to raise wages to meet high housing costs, will see a decline in real wages due to high housing costs. In a high housing cost environment, software engineers may be able to negotiate higher salaries to cover high housing costs, while teachers, whose salaries are constrained by public budgets, cannot get the same salary increase.

For businesses, the lower population growth associated with a tight housing supply means fewer potential workers. Current residents may be priced out of the housing market and leave for lower cost areas, and potential in-migrants will be scared off by high housing prices. Ultimately, the only people who can afford the high housing prices will be those with high skills working in highly productive industries. Over time this will squeeze out employers that cannot, for competitive reasons, pay higher wages, resulting in fewer jobs for moderately-skilled people, and a job market that seeks high skills.

Chart 8: Housing Prices and Industry Structure



In today's job market, employers fill more and more high skill positions through national and international recruiting, leading to a truly ironic outcome: when growth management creates a tight housing supply, it promotes in-migration. In trying to manage growth, we may be punishing the modestly-skilled people who already live here and favoring the highly skilled people who move here. Chart 8 shows this cycle by which housing prices gradually determine industry structure and employment.

This process leads to the familiar problem of low and moderate wage service workers not being able to live in the areas where they work. The most extreme example of this is ski resorts, where the wealthy live in million dollar homes in the city, and the restaurant employees and ski lift operators must commute long distances. The same dynamic can happen in metropolitan areas where service workers must commute long distances, and service jobs go unfilled because people who would accept those jobs have been driven out of the area by high housing prices.

CONCLUSION: IS THIS THE STATE WE WANT?

An inelastic housing supply – one that struggles to expand production to meet new demand – is gradually transforming many Washington state communities into "boutiques." Those individuals with high skills and high earnings are welcome to stay, while those with modest earning power are forced further and further away. This is born out by the fact that economic growth in King County is now having an impact in Thurston County, and even Lewis County is feeling the heat.

It is a lack of land capacity in urban areas that makes housing supply so inelastic, pushing up prices and, ultimately, reducing the diversity of local economies. The zoning choices made by each community determine land capacity. If communities are to be vibrant and healthy, they must provide housing for those who work in a variety of jobs. While, the GMA calls for every community to plan for sufficient housing for all economic segments of the population, this is not happening currently. We are caught in a cycle that is driving out middle income jobs. The only way to break this cycle is for communities to increase the ability to use land for housing.

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POLICY
brief
Washington Research Council
PB 05-12 November 22, 2005

Housing for Economic Development

BRIEFLY

Efforts to improve economic development and the business climate in Washington State must recognize that, along with transportation, education and the regulatory environment, the state's housing stock has a great influence on the health of the economic environment.

GIVE'EM SHELTER

A five-part series examining the availability and affordability of housing in Washington State.

Part 1

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Housing and economic development are closely linked, in both direct and indirect ways. A strong housing sector and a strong economy reinforce each other. As jobs and rising incomes produce demand for housing, housing construction, in turn, provides jobs and business opportunities. This brief looks at the various ways that housing interacts with the economy and describes ways that the dynamics within the housing market can both help and hurt the economy of the state.

HOUSING AND THE NATIONAL ECONOMY

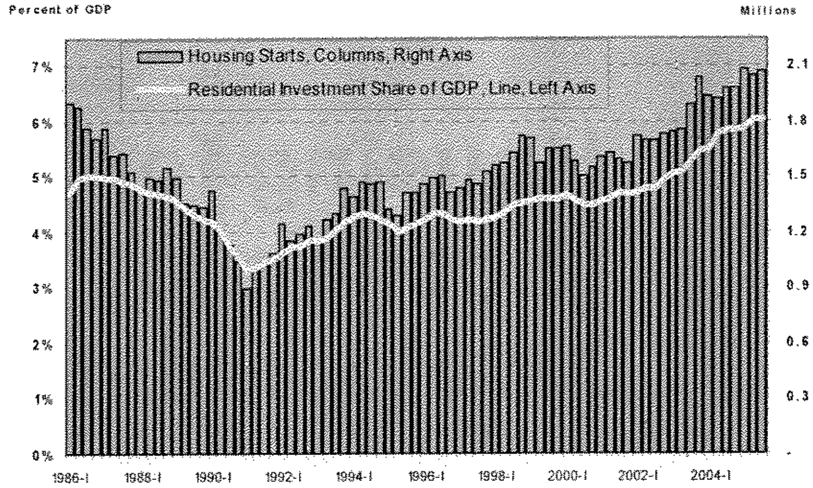
Although housing markets are local, the consumption, maintenance, construction and sale of housing adds up to a huge factor in the national economy. For 2004, consumption of housing services (i.e. the implicit rents on owner-occupied housing and the explicit rents on rental housing) exceeded ten percent of GDP, while household operations were another seven percent of GDP. Residential fixed investment was nearly six percent of GDP.

In recent years, housing construction has had an important role in keeping the national economy in recovery mode. During 2003 and 2004, housing construction contributed about 12 percent to the growth of the national economy, versus 4 percent during the 1990s (Council of Economic Advisors 2005). The year 2004 saw construction started on 1.95 million housing units, the most housing starts since 1978. For 2005, starts are forecast to top 2 million. (Council of Economic Advisors 2005, Global Insight).

Chart 1 shows how housing construction continued to expand as the economy as a whole flattened out in 2001. The 1990-91 recession was marked by a fall in construction activity. Not so in 2001. During the 1990s, housing starts averaged about 1.4 million per year. As the economy peaked in 2001 and the country turned into a recession, housing starts grew, keeping the recession from getting worse. Further growth in starts in 2003 and 2004 provided bounce to the recovery. Low interest rates and new mortgage financing tools kept housing demand strong. During the recession year of 2001, the housing industry built 40 percent more units, on a per capita basis, than it did during 1991.

The ever-present threat that climbing interest rates will reduce housing demand makes economic policy-makers very nervous. Looking at the numbers, both in terms of spending and investment, it is easy to see why.

Chart 1: Housing Starts and Residential Fixed Investment



Housing represents a large share of our economy's investment. Table 1 shows the components of private (business and household) investment in 2000 and 2004. Business investment was actually lower overall in 2004 than in 2000. Residential investment, in contrast, was up 50 percent. Note that in 2004, homeowners and investors put more money into housing than business put into information processing, software and industrial equipment combined.

Investments in housing have had a further impact on economic performance in recent years, as owners take advantage of low interest rates and rising home prices to borrow against the value of their homes. During the past recession, this stream of cash made a dent in otherwise lower consumption nationally. The 2002 Economic Report of the President notes:

> According to the Federal Home Loan Mortgage Corporation (Freddie Mac), holders of conventional, conforming mortgages liquefied about $59 billion in equity in the first three quarters of 2002. . . . Some survey research suggests that about half of this $59 billion would be allocated toward consumption and home improvements (two sources of aggregate demand), which would have raised GDP by about 0.4 percent above its baseline level through the first three quarters of the year (Council of Economic Advisors 2003)

Federal Reserve Board Chairman Alan Greenspan also took note of the impact of housing and mortgage financing on the nation's economy:

> The lowest home mortgage rates in decades were a major contributor to record sales of existing residences, engendering a large extraction of cash from home equity. A significant part of that cash supported personal consumption expenditures and home improvement. In addition, many households took out cash in the process of refinancing, often using the proceeds to substitute for higher-cost consumer debt. That refinancing also permitted some households to lower the monthly carrying costs for their homes and thus freed up funds for other expenditures. Not least, the low mortgage rates spurred sales and starts of new homes to very high levels. These developments were reflected in household financing patterns. Home mortgage debt increased about 13 percent last year, while consumer credit expanded much more slowly. (Greenspan 2004)

The willingness of individual households to make large investments in homes, combined with efficient and innovative mortgage financing mechanisms makes the housing market a key piece of the national economy. It provides mechanisms for equity growth, liquidity and financial flexibility for individual households, while also providing relatively safe, productive investments for institutions through secondary mortgage markets.

HOUSING AND THE STATE AND LOCAL ECONOMY: DIRECT BENEFITS

Discussions of economic development often exclude housing, despite the fact that it is an enormous industry. This exclusion is likely based on a belief that housing is not a part of the economic base of a state or region, that housing, unlike manufacturing, does not bring new money in from outside. But this view is wrong, at least in the short run. The money that funds purchases of new homes is raised on national (even international) capital markets and is new money to the region.

Table 1: Components of Investment

	2000		2004	
Business	$Billions	Percent	$Billions	Percent
Structures	313.2	18.7%	298.4	15.9%
Information processing equipment and software	467.6	27.9%	447.0	23.9%
Industrial equipment	159.2	9.5%	145.3	7.8%
Transportation equipment	160.8	9.6%	151.9	8.1%
Other equipment	131.2	7.8%	156.2	8.3%
Residential				
Structures	439.5	26.2%	665.4	35.5%
Equipment	7.4	0.4%	8.4	0.4%
Total	1,678.9		1,872.6	

Furthermore, no economy can function properly without a robust housing stock. By providing places for employees to live, customers for retail and service businesses and taxes for state and local governments, housing plays a crucial role in making state and regional economies thrive. In this section, the role of housing in the state and local economy will be discussed in terms of direct, measurable benefits, such as overall economic impact, employment and retail sales.

ECONOMIC IMPACT OF HOMEBUILDING

The overall economic impact of homebuilding on a regional or state economy can be measured using economic input-output modeling tools. The National Association of Homebuilders (NAHB) has developed a model for assessing the economic impact of homebuilding on regional economies that uses local inputs to derive impacts specific to a regional housing market.

The Master Builders Association of King and Snohomish Counties commissioned a report based on this model in 2004 that measures the impact of homebuilding on the Seattle metropolitan area. The data in the report is presented in terms of impacts of the construction of 100 single family or 100 multi-family units. Table 2 shows the direct (payments to people working on the construction site), indirect (payments to suppliers, off-site contractors and professional service providers) and induced (cycling incomes through the local economy) impacts on wages and salaries from construction as estimated by the NAHB model.

Table 2: Economic impact of building 100 units

	Local Wages and Salaries	Local business owners' income	Local taxes	Local jobs supported
100 Single family units	$14,869,000	$3,242,000	$2,817,000	311
100 Multi-family units	$9,124,000	$2,139,000	$1,386,000	188

Source: National Association of Homebuilders

The two counties for which the model was modified – King and Snohomish – issued permits for nearly 18,000 housing units in 2004. Using the NAHB estimates, the impact of building activity in those two counties is summarized in Table 3

The preceding data is based on homebuilding in King and Snohomish Counties, and reflects market preferences and cost structures in those counties. Extrapolating this data to the rest of the state is difficult because of wide variation in housing markets. New homes, both single family and multi-family, built in the Central Puget Sound area (and King County in particular) will tend to be larger and more elaborately appointed, and therefore more expensive, than homes built in most of the rest of the state.

Table 3: Economic impact of 2004 housing construction

	Local Wages and Salaries	Local business owners' income	Local taxes	Local jobs supported
King Co. single family	$940,910,320	$205,153,760	$178,259,760	19,680
King County multi-family	$477,002,720	$111,826,920	$72,460,080	9,829
Sno. Co. single family	$732,893,010	$159,798,180	$138,849,930	15,329
Sno. Co. multi-family	$113,411,320	$26,587,770	$17,227,980	2,337
Total, all units	$2,264,217,370	$503,366,630	$406,797,750	47,175
			Total impact	**$3,174,381,750**

Sources: National Association of Homebuilders, Washington Center for Real Estate Research

The U.S. Census reports that in 2004 for King and Snohomish Counties the value of single-family construction was 39 percent of the statewide total, while multi-family construction was 49 percent of the statewide total. We can apply these percentages to get ballpark estimates of statewide homebuilding impacts.

First consider wages. The Bureau of Economic Analysis estimates that the total of wages paid to employees in the State of Washington in 2004 was just shy of $150 billion. Extrapolating from the wages paid in homebuilding in King and Snohomish Counties, a rough estimate of statewide homebuilding wages would be $5.5 billion, suggesting that homebuilding accounts for about three percent of wages paid in the state. This understates the true impact, since much of the income associated with homebuilding comes in the form of business owner income earned by very small contracting enterprises, and this income is not reflected in wage data. Business owner income is another $1.2 billion.

JOBS AND SMALL BUSINESS IN THE HOMEBUILDING SECTOR

A tour through a large subdivision under construction vividly shows the breadth of employment in the homebuilding industry. At one end, painters, appliance installers and landscapers are finishing up houses ready for their new owners. In the middle, framers, roofers, plumbers, electricians and drywall mechanics are trying to keep out of each other's way. At the other end, in the early phases of the development, heavy equipment operators are clearing and grading, while concrete workers are building foundations.

Workers in all these trades are typically employed by independent subcontractors who move around the region from one site to another, and often from one builder to another. Subcontractors and their employees may drift into commercial construction, remodeling or repair work, and workers in the lower-skilled positions may move into other occupations as work varies. As a result of this, employment data for the homebuilding sector is subject to some uncertainty.

Table 4 shows the average employment in various segments of the homebuilding sector and associated trades for 2004.

Many of the trades represented, such as painters, roofers, plumbers and electricians, do a substantial part of their work as repairs or service to existing homes or commercial buildings, and that work would not be considered part of the homebuilding sector. But since many firms work both in new construction and service, it is very difficult to break out the data. Offsetting this data discrepancy, to some degree, is the fact that so many of the trade contractors are sole proprietorships, in which the income of the owner is not counted in the data (the data count employees who are "covered" by unemployment insurance, which excludes business owners).

Table 4: Employment in homebuilding and trades, 2003

	Number of firms	Total wages paid ($1,000s)	Total employees	Average employees per firm
Land subdivision	348	$84,852	1,826	5.25
New single-family general contractors	4,097	$397,136	13,039	3.18
New multifamily general contractors	96	$24,000	622	6.48
Residential trade contractors total	10,221	1,212,822	42,536	4.16
Drywall contractors	683	$117,646	4,492	6.58
Electrical contractors	1,065	$179,890	5,381	5.05
Finish carpentry contractors	749	$70,497	2,501	3.34
Flooring contractors	511	$46,097	1,676	3.28
Framing contractors	768	$69,064	2,707	3.52
Glass and glazing contractors	104	$19,086	619	5.95
Masonry contractors	400	$30,840	1,124	2.81
Painting contractors	1,259	$87,113	3,840	3.05
Plumbing and HVAC contractors	1,271	$226,629	6,902	5.43
Poured foundation contractors	576	$57,367	2,183	3.79
Roofing contractors	542	$76,917	2,812	5.19
Siding contractors	348	$24,949	1,057	3.04
Site preparation contractors	767	$85,540	2,805	3.66
Structural steel contractors	29	$8,706	221	7.62
Tile and terrazzo contractors	213	$24,089	759	3.56
Other equipment contractors	28	$6,723	234	8.36
Other exterior contractors	54	$5,253	189	3.50
Other finishing contractors	118	$14,648	513	4.35
All other trade contractors	736	$61,769	2,521	3.43
Total	14,762	$3,751,282	58,023	3.93

Source: Washington State Department of Employment Security

Nevertheless, what is striking is the degree to which the employment structure of the industry is dominated by the specialty trades. As the firm size data show, contractors themselves are very small employers, relying on their network of subcontractors to do the actual work of building homes. And the subcontractors are, in turn, mostly very small businesses.

The homebuilding industry, despite rising barriers to entry and the emergence of more national builders, is still very fragmented. The top 20 builders in the Puget Sound region were responsible for only about one fourth of the single family homes built in King, Pierce, Snohomish and Kitsap counties. The builder holding the number 20 position on the Puget Sound Business Journal list of builders anticipates building about 25 houses a year, meaning the vast majority of the state's 4,000 homebuilders are working on just a handful of houses at a time. (Puget Sound Business Journal 2004)

The diffuse nature of the homebuilding industry – both the number of builders and their use of subcontractors for nearly all work – has allowed for entrepreneurial opportunities and easy entry of new players. At the same time, consumers have benefited from the intense competition, while being protected by land use and building codes. This industry structure, however, is eroding, due to the high cost of land in many areas of the state, and the complexity of the land development process. It is getting more and more difficult for small builders to find inexpensive lots on which they can build the modest homes that their financial resources allow.

HOUSING AND RETAIL DEVELOPMENT

A key component of local economies is the retail sector, which provides convenience, services, jobs and tax revenues.

The vast majority of retail development is driven by housing construction. Planning for retail begins with a count of "rooftops" to determine if there are enough potential customers to justify new retail space and stores. Home ownership rates are another key determinant of a potential retail market, signaling stability and spending power.

Table 5: Primary trade areas for shopping centers

Type of Center	Minimum population support required	Radius	Driving time
Super regional	300,000 or more	12 miles	30 minutes
Regional	150,000 or more	8 miles	20 minutes
Community	40,000–150,000	3–5 miles	10–20 minutes
Neighborhood	3,000–40,000	1½ miles	5–10 minutes

Source: Beyard and O'Mara, 1999

The basic measures of a retail customer base are "trade areas." Beyard and O'Mara define these areas in three tiers that roughly correspond to concentric circles around a store. The primary trade area contains 70 to 80 percent of the customer base, the secondary trade area contains another 15 to 20 percent, and a tertiary area contains scattered customers farther out. Table 5 shows some basic guidelines for the primary trade area of various sizes of shopping centers, and Table 6 shows guidelines for different types of individual retail outlets. (Beyard and O'Mara 1999, White and Gray 1996)

A trade area will often be able to support more than one competitor in a category, since customer preferences and loyalty are divided within any population. Thus, isolated communities that fall below the thresholds in Table 6 may still support a single store in one category.

Table 6: Primary trade areas for stores

Type of store	Minimum population support required	Radius
Supermarket w/pharmacy	50,000–70,000	Urban: 1–2 miles Suburban: 3–5 miles
Drugstore (e.g. Bartells, Walgreens)	20,000–25,000	Urban: 1 mile Suburban: 2–3 miles
Discount store (e.g. Fred Meyer)	150,000–200,000	5 miles
Electronics (e.g. Best Buy)	250,000	5–10 miles
Home improvement (e.g. Lowes)	150,000 plus 70,000 single family homes	4–8 miles

Source: White and Gray, 1996

Since the trade area is defined in terms of both population and distance, housing density will strongly affect the willingness of retailers to open new locations. As sparsely populated areas fill in, providing more customers within a short distance, they become attractive to retailers. For example, a low-density area may only support a small supermarket, but with significant housing increases, it will support a larger community shopping center, to the benefit of both current and new residents.

Retail also plays a major role in local government finance. Since sales taxes are collected at the point of sale, and do not acknowledge the residence of the purchaser, a jurisdiction with a weak retail presence surrenders part of its tax base to neighboring jurisdictions if it does not offer its residents opportunities to shop locally.

Table 7 shows the per-capita retail sales tax collected in 2004 for pairs of neighboring jurisdictions in the state, as well as the per-capita collections for the entire county in which those cities lie. Cities with collections higher than the county total have more than their share of retail presence, and those with lower collections than the county-wide total have less than their share of retail presence (note that this may be due to factors in addition to population and housing). These differences –

very significant in some cases – show the differences in revenues available to jurisdictions with a strong retail presence and those with a weaker retail presence. This tax revenue will, in turn, have an impact on the ability of a jurisdiction to provide infrastructure and services to support economic development efforts.

Table 7: Sales tax shifts

	Per capita sales tax collections
Entiat	$31
Wenatchee	$208
Chelan County total	$172
Port Angeles	$154
Sequim	$325
Clallam County total	$139
Spokane Valley	$164
Cheney	$96
Spokane County total	$151
Bellevue	$319
Newcastle	$104
King County total	$212
Lynnwood	$463
Mountlake Terrace	$65
Snohomish County total	$134

Sources: Dept. of Revenue, Office of Financial Mgmt.

Many factors come into play in retail location decisions, especially in a complex metropolitan area. But those decisions always begin with a count of potential customers, and those customers are found living in the area's housing stock. This is seen most dramatically in large downtown areas that have a substantial employee presence during the day, but that "roll up the sidewalks at 5:00." Downtown residents and their retail spending make the difference between a sterile urban core and an "18-hour city."

HOUSING AND THE STATE AND LOCAL ECONOMY: SUPPORTING EMPLOYEES

Aside from its direct benefits, housing enables an economy to function by providing a place for employees to live. The quality, price and convenience of an area's housing stock have a direct relationship to the ability of businesses to recruit and retain employees and on the quality of life those employees will have. This relationship is difficult to quantify, but very real. Following are some facets of the relationship between housing and employment:

Commute times and pool of talent. When looking for a job, people tend to confine their search to what they consider a reasonable commute. Most Americans prefer to commute no more than a half-hour, or maybe 40 minutes, so that radius will define the bulk of the talent pool from which employers can draw. This works fine if there is a variety of housing – and therefore a broad cross section of potential employees – within a half-hour radius of an employer. But if there is a lack of housing suitable for the income levels offered by an employer, the pool of potential employees shrinks.

The most extreme example of this problem occurs in resort communities, where the bulk of jobs do not pay well and housing is very expensive. But the same problem happens in affluent suburban areas with high housing costs and poor transit service to more affordable areas. Whereas housing costs can vary widely in a region, wage rates cannot vary enough to compensate. When labor markets tighten, businesses like hotels, restaurants and senior citizen care facilities located in high cost areas can have a great deal of trouble filling jobs and serving their customers.

Commute times and job turnover. When people are forced to make long commutes to their jobs from more affordable neighborhoods, an extra layer of stress is added to their lives. Commutes can be unpredictable, so extra time needs to be built in to avoid tardiness. Family emergencies become more difficult to attend to when children or aging parents are an hour or more away. If transit is not an option, commute costs can mount, especially with rising gasoline prices.

All these stresses add up to the potential for high job turnover. An individual may accept a job with a long commute just to become employed, but if a new job turns up closer to home, they may take it. This is especially true in lower skill jobs where it is easy to move from one employer to another. But from an employer point of view, such turnover is very expensive – hiring and training is costly even at the lowest skill levels.

An adequate supply of housing at moderate price levels in all employment markets helps ensure that employers can improve retention by hiring within their commute shed.

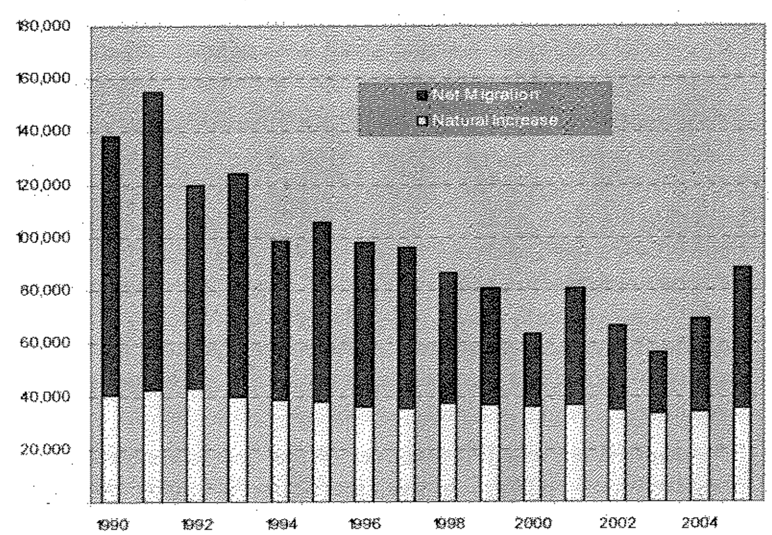
Housing and migration. Washington State has long benefited from the willingness of talented people to relocate to the state. With a high quality of life and many forward-looking industries, the state attracts people from around the country and the world. Chart 2 shows the two components of population change in Washington for the past 15 years. Natural increase (births minus deaths) is quite stable, while net in-migration (people coming to the state minus people leaving the state) varies from year to year. While the recent recession slowed the rate of net in-migration, the state remains a very attractive place to move. Unlike the recessions of the early 1970s and the early 1980s, when it became negative, net in-migration remained positive through the recent recession and is now rebounding.

But who is moving here and how do they affect the housing market?

According to the Census Bureau, people moving long distances are more likely to have higher education levels and to be moving to accept a new job. Conversely, it is very unlikely that many immigrants to Washington are unemployed people with low education levels and low income potential. (Schachter 2001)

This means two things. First, in-migrants are likely to have higher incomes and therefore add to the pool of people competing in the owner-occupied housing market, helping to drive up prices in the face of limited supply. Second, they are more likely to bring equity with them from their state of origin. California continues to be far and away the largest source of in-migrants to Washington State. In 2000, 8.3 percent of state residents reported being born in California , up from 7 percent in 1990. An average of 30,000 Californians moved to Washington each year in the late 1990s. That state's high real estate values mean that many Californians have ample money to put into the Washington market. (U.S. Census Bureau)

Chart 2: Washington State Population Growth



So while people moving to the state for jobs can, because of their higher income levels, likely find the housing they need, these in-migrants add to market pressures that are felt by moderate and lower income people already in the state. The attraction of talented people to the state should be a plus for the economy, but the pressure on the housing market will be felt by those already here.

HOUSING AND THE STATE AND LOCAL ECONOMY: IMPACT ON SPENDING

The longstanding rule of thumb has been that expenditures for housing should take up no more than 30 percent of a household's income. The other 70 percent goes to food, clothing, transportation, healthcare, entertainment etc. When housing supply is constrained and costs rise, lower income families can find themselves spending more than 30 percent of their income for housing, displacing other expenditures. This squeeze on consumption has obvious impacts on the quality of life for these families, but it also has an impact on the economy as a whole.

A significant part of local economic activity is driven by the circulation of wages through the retail sector. Employment in stores, restaurants, gas stations, movie theaters and other establishments depends on discretionary spending by local residents. When expenditures for local retail and services is displaced by high payments for housing, the local economy suffers, since it is much less likely that housing expenditures will end up circulating back through the economy.

The National Housing Conference Center for Housing Policy studied the impact of high housing costs on the expenditure patterns of moderate and low income families. The study found that when families must spend more than 30 percent of their income for housing, they trade off expenditures in several areas, most notably in transportation. Table 8 shows the spending patterns for three types of households, grouped according to the burden of housing cost. (Lipman 2005)

Table 8: Expenditure trade-offs in response to high housing costs

	Percent of income spent on:				
Family housing burden	Housing	Food	Healthcare	Clothing	Transportation
No housing cost burden	Less than 30%	17%	9%	4%	23%
Moderate housing cost burden	31% to 50%	18%	7%	4%	13%
High housing cost burden	50%	15%	4%	2%	7%

Source: Lipman, 2005

The data show two notable implications for a regional economy. First, those spending more than 30 percent of their income for housing are spending significantly less on transportation, which means they are buying fewer cars and spending less on gas and maintenance at the local retail level. Second, with fewer transportation resources, they will be dependent on transit routes and therefore less likely to be part of the larger regional labor pool.

A further impact of high housing expenditures is felt by state and local government. Rents and mortgage payments are not subject to sales tax, whereas the retail sales most likely to be displaced by those payments are taxable. Discretionary spending in the economy is an important source of sales tax revenue, and high housing costs will cut into those tax collections.

CONCLUSION

Housing does not drive economic development for more than brief periods, but it does enable, stabilize and sustain national, state and local economies. The size of the housing construction and supply sector and its huge employment base is, by itself, enough to swing economies.

The relationship between housing and economic development at the state and regional level is, in many ways quite obvious, but also maddeningly difficult to quantify. Housing cost, availability and location are among a much wider series of variables that individuals and employers consider when making personal and business decisions, and everyone will make trade-offs a little bit differently.

Nonetheless, every employee needs to live somewhere they can afford, preferably in a home that meets their needs within a reasonable commute distance and with convenient retail and other services nearby. A well-housed employee is a more stable employee, and stable employees are a necessity for a strong business climate.

Efforts to improve economic development and the business climate in Washington State must recognize that, along with transportation, education and the regulatory environment, the state's housing stock has a great influence on the health of the economic environment.

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The Seattle Times
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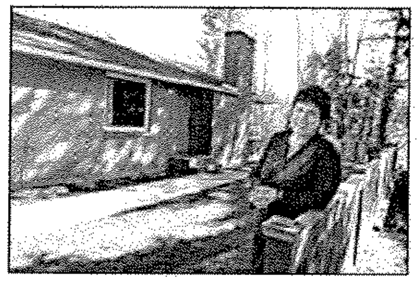
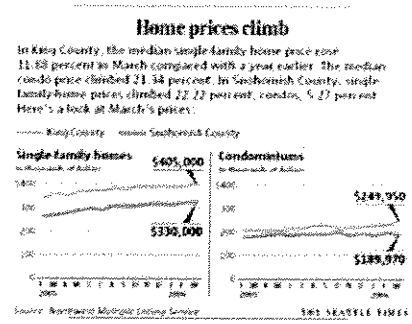
Friday, April 7, 2006 - 12:00 AM

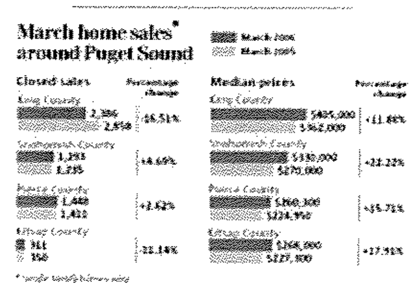
$405,000 Median house price in King County

By Elizabeth Rhodes
Seattle Times business reporter



STEVE RINGMAN / THE SEATTLE TIMES
Ann Dickhoff helped her son buy a three-bedroom North Seattle rambler for $409,000. Paying $320,000 last year for a Greenwood-area home for her mother was a "wake-up call," Dickhoff said, for her and her husband about escalating house prices.





Ann Dickhoff's house purchase typifies a milestone in more ways than one.

Like many other parents of adult children, Dickhoff was afraid her son would be priced out of homeownership in his hometown.

So last month she helped him buy a North Seattle rambler, gulping as she paid $409,000 — or $89,000 more than she shelled out a year earlier for a nicer house half a block away.

In doing so, Dickhoff helped fuel the buyer frenzy that's pushed the median cost of King County single-family homes past $400,000 for the first time.

Still, median prices in some neighborhoods are much higher than that, seriously undercutting affordability and turning the hunt for a moderately priced home into blood sport.

March home-sales numbers were released Thursday by the Northwest Multiple Listing Service. They show the median closed price of King County single-family homes has shot up almost 12 percent in the past year, reaching $405,000 last month (and up from $392,950 in February).

While single-family median costs are lower in Snohomish, Pierce and Kitsap counties, all three posted higher one-year appreciation than their more-populous neighbor. That's an indication that housing demand throughout the central Puget Sound area remains brisk. Median is the point at which half the homes sell for more, half for less.

Dickhoff and her husband, Walton, an administrator for the National Oceanic and Atmospheric Administration, had to pay $320,000 last year to snag a small Greenwood-area bungalow for her mother. "That was our wake-up call," she said, to climbing prices and the possibility that homeownership for her kids was in jeopardy.

Indeed that's a serious possibility for many residents, according to Washington State University's Center for Real Estate Research. Average-wage workers, in particular, are susceptible to the double whammy of rising house prices and rising interest rates.

In the past year, the average interest rate on a 30-year, fixed-rate loan has climbed half a percentage point to 6.5 percent.

The WSU center's latest affordability index reveals that King County buyers earning median wages have just 80 percent of the income needed to afford a median-priced house. First-time buyers have 45 percent.

In January, Ann Dickhoff, a nurse at Swedish Medical Center, began hunting for a house to buy for son Paul, 21, a cheese maker at Pike Place Market, to live in with roommates. A real-estate agent warned her the first one she bid on would sell for more than its $400,000 list price.

So the Dickhoffs bid $416,000 — and added a $30,000 escalator clause in case a bidding war broke out.

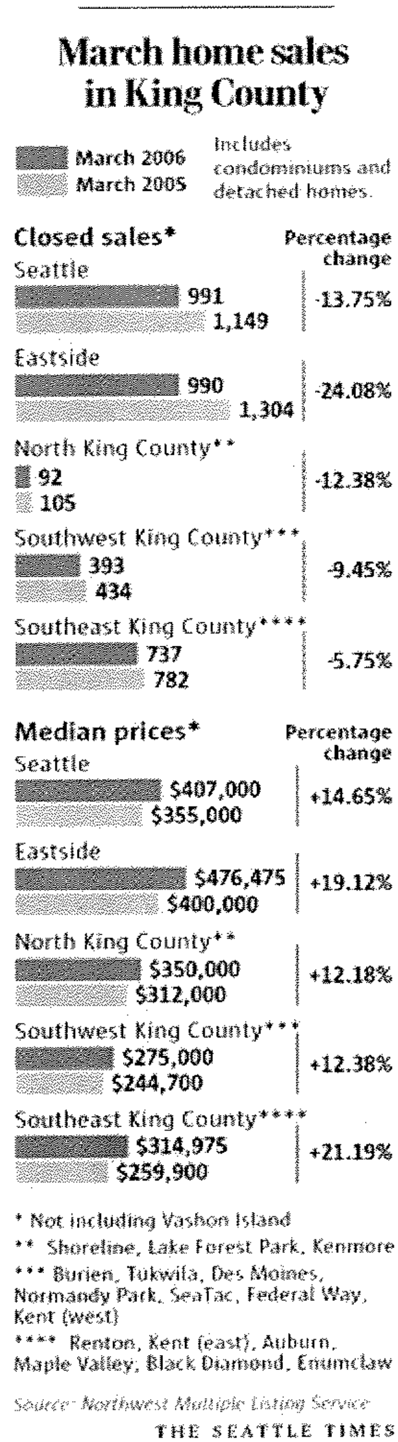
It did, and they lost that house to a $450,000 all-cash offer.

That made clear to her that "the market was taking off, and if we were ever going to buy something for the kids to live in, we'd better make a move."

They quickly did, landing for $409,000 a newly refurbished 1950s three-bedroom with a spacious new garage.

Still, if the market weren't so hot, "we wouldn't even have looked at it," Dickhoff confided. The house is on busy Greenwood Avenue North, and the street noise is significant. Plus a newer townhouse development has consumed its entire backyard.

Ironically, as buyers like the Dickhoffs scramble to find a house, the number of King County home sales has been slipping. That usually indicates a cooling market.



That is the case in California and Florida, where sales are slowing down, according to the National Association of Realtors.

But not here, said Jill Jacobi Wood, owner of Windermere Real Estate.

"Sales are down, but listings are down," Wood said, referring to the number of King County homes on the market.

That squeeze tells the tale.

In March 2004, there were 7,156 homes for sale countywide. March 2005's inventory was 5,244 homes. This March recorded a further drop, to 5,100.

At the same time, the local economy is growing and employers are adding jobs, bringing more potential buyers to the area. So the competition for available homes is strong, Wood noted, and prices are reacting accordingly.

King County's median for single-family homes "will stay over $400,000," she predicted. "There are too many good jobs; it's too desirable a place to live for high-income people."

Wood attributes much of the home shortage to move-up buyers perceiving they have nowhere to move up to. So instead they're staying put and remodeling.

Another factor is King County's shortage of buildable land. That's limiting the number of new homes and pushing builders into outlying counties.

All these factors are forcing some King County buyers "further out to get availability and affordability," said Lennox Scott, chairman and CEO of John L. Scott Real Estate. "There just aren't those two things close in."

But as Wood points out, "you can go to Shoreline, you can go to Everett, you can go to Tacoma and you can still buy a home as a first-time homebuyer and get a nice house."

Buyers who stick it out, particularly within central King County, are finding intense competition, multiple offers and no chance to negotiate.

"In the lower price ranges, if you find something that will work for you, generally you need to move quickly," advised Jim Conlan, broker/manager of Century 21 North Homes Realty. That could mean waiving financing and inspection contingencies, which Conlan says some buyers are doing, although he doesn't recommend it.

Still, he doesn't expect buyers to give up because "the ultimate American dream is owning your own place. And people see the longer they wait, the more it costs because properties are continuing to go up in this market," Conlan said.

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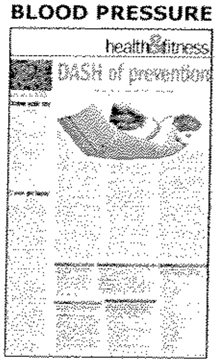

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The downside for rising home prices

By PETER CALLAGHAN
Tacoma News Tribune
10-APR-06

Housing prices in the region saw another double-digit increase this past year. Whether you see thi news or bad news might depend on one factor: whether you own your home or not.

Homeowners seem to enjoy the breathless stories about superheated real estate markets. Pierce Wash., for example, saw an 18 percent increase in the median price in the last year. In King Coun was 12.3 percent; in Thurston, 24.9 percent.

It's nearly always covered as good news. Apparently we all feel that much richer, given that many their personal wealth tied up in their homes. We tell stories about how much houses in our neighb going for with a "can you believe it?" shake of the head. No matter when you bought _ last year or _ it's worth more now than it was then.

The news isn't so good for the folks who haven't been able to buy a house because they're poor o coming here from places where prices aren't so nutty. They certainly have a different reaction to tl

A rising tide raises all boats, which is cool as long as you have a boat but not so cool if you're stan beach.

A January poll by the Pew Research Center found that 26 percent of Americans thought housing p "very big problem" facing the U.S. economy.

Meanwhile, 39 percent considered it a "big problem." Not surprisingly, when broken down by incor percent of those earning less than $30,000 considered it a "very big problem" compared to only 17 those earning more than $75,000.

No one wants the price of housing to stagnate or decline, not even those who have hopes of beco But bad stuff results from repeated double-digit increases. At the risk of bringing everyone down, I

_ It makes it even more difficult for people to buy homes. Despite lottery advertising, the American winning the lottery, it's owning your own home.

But the Washington Center for Real Estate Research at Washington State University reports that t buyers earning median wages in Pierce County have just 61 percent of the income needed to affo median-priced house.

In King County, that buyer has just 45 percent of the income needed; in Thurston, 67 percent. Jus earlier, the numbers were 92 percent in Pierce, 82 percent in King and 91 percent in Thurston.

_ It makes current buyers less likely to move up. While that's good for remodelers, it's not so good estate agents or for the younger buyers who want that starter home you decide to stay in rather th contributes to a shortage of listings that puts even more upward pressure on prices.

_ It contributes to sprawl. New buyers, often young families, are more likely to find affordability in r subdivisions.

_ It chases children out of cities. It is not a new phenomenon that married couples head for the sul they have children. But it is getting worse, contributing to declining student populations in districts Tacoma and Seattle, where schools must be closed while new schools are built in the suburbs.

The 2000 Census showed Seattle had the lowest percentage of children of any large city in the na by Boston, Denver and San Francisco _ all high-priced real estate markets. In 1960, kids made up of the population. In 2000, it was less than 15 percent.

_ It makes it more difficult to pass school levies. Higher values lead to higher taxes for a lot of owr some take it out on schools. The last time there were a high number of double-levy failures was 1 after the last real estate bubble.

_ It contributes to property tax inequities. When housing values increase more rapidly than other p result is a shift in tax burden to homeowners.

In 1988, the share of property taxes paid by owners of commercial and industrial property was 48. 2004, it was 34 percent. The shift has been steady, but worsened during the residential real estate 1990.

(Distributed by Scripps-McClatchy Western Service, http://www.shns.com.)